



**REBUTTAL TESTIMONY AND DATA**  
**IN SUPPORT OF**  
**THE PROVIDENCE WATER SUPPLY BOARD'S**  
**ABBREVIATED RATE FILING**

**OCTOBER 2002**

**DOCKET NO. 3446**

# PROVIDENCE WATER

## Rebuttal Testimony

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REBUTTAL TESTIMONY

of

JEANNE BONDAREVSKIS

before the

PUBLIC UTILITIES COMMISSION

FOR

ABBREVIATED RATE FILING

Docket No. 3446

for

PROVIDENCE WATER

October 2002

**PROVIDENCE WATER SUPPLY BOARD  
REBUTTAL TESTIMONY OF  
JEANNE BONDAREVSKIS**

- Q. Please state your full name and title?
- A. Jeanne B. Bondarevskis, Director of Finance for the Providence Water Supply Board (Providence Water).
- Q. Have you testified before in this Docket?
- A. Yes, I presented prefiled testimony, provided the supporting schedules included in the appendix and responded to data requests in this filing.
- Q. What is the purpose of this testimony?
- A. This testimony will respond to the issues in the prefiled direct testimony of Mr. Catlin for the Division and Mr. Woodcock for the Intervenor.
- Q. How will your testimony be structured?
- A. I will review Mr. Catlin's and then Mr. Woodcock's testimony regarding the issues discussed therein.

**Mr. Catlin's testimony**

**Sales and Revenue**

17. Have you reviewed Mr. Catlin's testimony regarding sales and revenues?
- A. Yes I have. Mr. Catlin has made three proposed adjustments to our pro-forma revenue amounts. He has updated the units of service, he has updated wholesale water sales and he has adjusted wholesale for additional, temporary, consumption for Bristol County Water Authority.

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- Q. Do you agree with his proposed adjustments?
- A. We agree with his first proposed adjustment to reflect the most current customer counts. We also agree with his second proposed adjustment to reflect the four year average sales utilizing the fiscal year ended June 30, 2002 wholesale sales. However, we disagree with his third proposed adjustment to add on for the anticipated, temporary, additional water sales to Bristol County Water Authority. While Mr. Catlin has accurately calculated the pro-forma year, the method he has used will set a consumption level that is unusually high. He has taken the FY 2001 consumption and added on for an additional 2 million gallons per day for the period January 2003 through June 2003. If Mr. Catlin's method were adopted, Providence Water would have to submit a rate filing by June 1, 2003 to readjust rates effective January 1, 2004, because the BCWA temporary additional usage will have been eliminated by then. If this adjustment is not made, Providence Water will not collect enough to meet its expenses, solely because of the BCWA reduction. We therefore feel that our consumption level should be set using a four year average. The average will include the unusually high (but temporary) amount for BCWA for FY 2002; however it will be averaged against regular years. This will then set a wholesale consumption level that can be in effect for more than one year. I have attached a schedule which shows Providence Water's proposed consumption volumes (CA-8a REBUT).

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**Salaries and Wages**

- Q. Have you reviewed Mr. Catlin's proposed adjustment to salaries and wages?
- A. Yes I have. I agree with Mr. Catlin's proposed adjustment to salaries and wages.

**Pension Expense**

17. Have you reviewed Mr. Catlin's testimony regarding pension expense?
1. Yes I have. Providence Water cannot accept Mr. Catlin's proposed adjustment to pension expense. Boyce Spinelli has prepared rebuttal testimony explaining Providence Water's position on this issue.

**Other Employee Benefit Costs**

- Q. Have you reviewed Mr. Catlin's testimony on other employee benefit costs?
- A. Yes, I have. Mr. Catlin has proposed adjustments to two benefits directly related to salary increases with the revised salary percentage of 6.08 percent. Providence Water agrees with these proposed adjustments.

Providence Water also agrees with the proposed adjustment to the training expense.

**IFR/CIP Wages**

- Q. Have you reviewed Mr. Catlin's testimony regarding IFR/CIP Wages?
- A. Yes I have. Providence Water cannot accept this proposed adjustment. Mr. Catlin has proposed to reduce Operating

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funds for three positions. These three positions were to be charged to IFR and funded from savings from outside consultants, also from the IFR fund. However, the three positions were not charged to IFR because they have not yet been hired, and the use of consultants has not yet been reduced. Therefore, we cannot now reduce Operating funds for three positions. The three positions are not included in the salaries and wages included in this filing.

The intent of our previous testimony was to take part of the existing IFR/CIP funding already being spent on outside consultants, or part of what we would have to spend on outside consultants, and use those funds to hire additional in-house people (in lieu of some consultants) because we knew we could do it cheaper in-house than by using consultants in many cases. What we proposed was not to have had any effect on our Operating budget.

Providence Water believes the Commission may have also had this intent. As stated in the Report and Order in Docket 3163,

“However, in view of the testimony of the Division and PWSB that savings will be achieved through the use of in-house IFR engineers in lieu of outside consultants and that the cost of service will not be increased thereby, the Commission will permit the PWSB, on a trial basis, to charge the labor and overhead costs for up to *three* in-house *professional* IFR and/or

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CIP positions to the IFR/CIP allotments.”<sup>1</sup>

We believe that the phrase “in lieu of” clearly means that the positions would be additional ones which would replace some existing outside consultants or would be in place of hiring some additional outside consultants. Secondly, we believe that the phrase “the cost of service will not be increased thereby,” means that the charging of the employees would have no impact on Operations. If the Commission had thought the cost of service should be reduced, it would have done so in the prior Report and Order. Mr. Catlin is now suggesting that our cost of service be reduced in this docket. We do not believe that this was the Commission’s intent, and we simply cannot afford to lose these salary dollars.

- Q. Has Providence Water done anything to hire these new engineers?
- A. Yes. We apologize for the delay in implementing this trial program. However, Providence Water is currently in the process of obtaining approval from the City Administration for the hiring one additional engineer (as approved by the Commission in docket 3163) and also three additional professional engineering technicians for IFR/CIP.
- If approved, we plan to charge these positions to

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<sup>1</sup> Report and Order # 16552, pages 40-41.



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IFR/CIP as appropriate and provide semi-annual reports (with our IFR/CIP report) of the savings achieved by reducing the use of outside consultants, as required in the Report and Order in Docket 3163.

**Rate Case Expense**

Q. Have you reviewed Mr. Catlin's testimony regarding rate case expense?

A. Yes I have. We agree with Mr. Catlin's proposed adjustment.

**Chemicals Expense**

Q. Have you reviewed Mr. Catlin's testimony regarding chemical expense?

A. Yes I have. We agree with Mr. Catlin's proposed adjustment. This is the same amount included in our response to Division data request 1-19a.

**Miscellaneous Water Treatment**

Q. Have you reviewed Mr. Catlin's testimony regarding miscellaneous water treatment expense?

A. Yes I have. We agree with his proposed adjustment.

**Computer Maintenance**

Q. Have you reviewed Mr. Catlin's testimony regarding computer maintenance?

A. Yes I have. Mr. Catlin has proposed to adjust an expense included in the rate filing that occurs approximately every three years. We agree with his proposed

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adjustment.

**Property Taxes**

Q. Have you reviewed Mr. Catlin's testimony regarding property taxes?

A. Yes I have. Mr. Catlin has proposed to utilize the actual FY 2003 property tax bills. Providence Water agrees with this. Mr. Catlin then proposed to reduce the annual growth rate from 5.78 percent utilized by Providence Water in the filing. This amount was higher than normal due to the revaluation of our Scituate property. While we realize that this was higher than normal, we do anticipate revaluations over the next few years. Please reference our response to Commission data requests 1-7 and 1-8. However, upon review of recent historical data, the percentage utilized by Mr. Catlin of 2.64% does appear reasonable. Providence Water would accept a one-half year growth of 1.32%.

Providence Water also agrees with Mr. Catlin's proposal to put any potential tax refunds in a restricted account that would then be subject to review and approval by the Commission.

**Sludge Lagoon Maintenance**

Q. Have you reviewed Mr. Catlin's testimony regarding sludge lagoon maintenance?

A. Yes I have. Mr. Catlin has basically proposed that Providence Water put the funding for the sludge removal and disposal in a restricted fund during the inception of

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the program. Providence Water agrees with this proposal.

**Rate Design**

- Q. Have you reviewed Mr. Catlin's testimony regarding rate design?
- A. Yes I have. Mr. Catlin has accepted Providence Water's proposal to recover the additional revenue from a uniform percentage increase in rates. Providence Water appreciates this.

**Revised Rates**

- Q. Have you incorporated the adjustments you agree with in the cost allocation sheets originally included in the filing?
- A. Yes I have. Attached as an exhibit to my testimony are rebuttal schedules that incorporate the adjustments described above. I have created one new schedule CA-1a which provides a summary of our rebuttal adjustments. When we adjust the pro-forma revenue and deduct the agreed to proposed adjustments, the result is a revenue increase of 11.28%. Rates would increase 11.62% as indicated on Schedule CA-20 REBUT.

**Mr. Woodcock's testimony**

- Q. Would you please review Mr. Woodcock's testimony?
- A. Certainly. Unlike Mr. Catlin, Mr. Woodcock claims that Providence Water did not comply with the requirements for an abbreviated filing. Providence Water disagrees. We

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filed all the necessary schedules and supporting documents required under Rule 2.10. Unfortunately, we did inadvertently overlook two items from a previous Report and Order. For this we do apologize.

With regard to Mr Woodcock's claim that we included expenses that are not proper in an abbreviated filing (a claim not made by Mr. Catlin), we feel that we included only proper expenses. Of course, we had to use firm historical data to project certain known and measurable changes. Otherwise we would not have been able to project the pro-forma expense levels.

- Q. Please continue with your comments on Mr. Woodcock's testimony.
- A. Mr. Woodcock, on page 2 lines 14 through 25, alludes to a number of items. Providence Water admits that there may have been some small percentage issues, but believes that the cost of service is a good projection of what will be needed in calendar year 2003, as amended by the changes we have agreed to with Mr. Catlin.

**Salaries and Wages**

- Q. Have you reviewed Mr. Woodcock's proposed adjustment to salaries and wages?
- A. Yes I have. Providence Water does agree that salaries, and some benefits, were mistakenly overstated by about 2%. We have agreed to the adjusted percentage increase included in both Mr Catlin's and Mr. Woodcock's testimonies.

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**Other Employee Benefit Costs**

- Q. Have you reviewed Mr. Woodcock's testimony on other employee benefit costs?
- A. Yes I have. While Mr. Woodcock discusses this issue on page 2, lines 37 through 40, I cannot find where he includes it on his adjustment schedules. Providence Water does agree to the concept and has agreed to Mr. Catlin's proposed adjustment amount.

**Western Cranston Debt**

- Q. Have you reviewed Mr. Woodcock's testimony on concerning the Western Cranston Debt?
- A. Yes I have. Providence Water has not proposed an increase; Providence Water has simply proposed to continue the level of funding from the prior docket in a separate restricted fund to be used only for Western Cranston system improvements. We have already identified many necessary improvements that must be done. Both the takeover of the system and the first long term debt issuance, for initial improvements to the system have been approved by the Division of Public Utilities.<sup>2</sup>

**Alternative Supply Study**

- Q. Have you reviewed Mr. Woodcock's testimony with regard to the Alternative Supply Study?
- A. Yes I have. Providence Water disagrees with Mr. Woodcock and feels it needs to continue funding for the Alternative Supply Studies, especially given the current

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<sup>2</sup>

See Division Docket D-97-11 and D-01-04.

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drought situation and the threats of terrorism.

**Treatment Costs**

Q. Have you reviewed Mr. Woodcock's testimony on other treatment costs?

A. Yes I have. As stated above, in my review of Mr. Catlin's testimony, Providence Water agrees to the proposed adjustment of \$25,000 for the license fee.

**Equipment Replacement funding**

Q. Have you reviewed Mr. Woodcock's testimony regarding Equipment Replacement funding?

A. Yes I have. Providence Water filed multi-year equipment schedules to support its request to establish a restricted equipment and vehicle replacement fund. Providence Water explained how this was to evolve into a primarily cash fund (similar to IFR) as existing equipment leases were paid off. We have not requested an increase to this restricted funding level. Therefore, we disagree with Mr. Woodcock's proposed adjustment.

**CIP Debt**

Q. Have you reviewed Mr. Woodcock's testimony regarding CIP Debt?

A. Yes I have. I do not agree with Mr. Woodcock's assertion that some of the payments are estimates and therefore are not known and measurable. The estimated debt included in the Capital fund is for Security Improvements. The Division has approved the debt, and Providence Water hopes to close well before the end of this calendar year.

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In other cases, the actual interest expense is estimated during the construction phase. This is why Providence Water has adjusted our funding levels to even amounts (\$12.5 million in IFR, \$2.45 million in CIP). The combination of cash funded projects and debt funded projects allows Providence Water to manage the yearly variances that can occur.

**Cash funded IFR**

Q. Have you reviewed Mr. Woodcock's testimony regarding cash funded IFR projects?

A. Yes I have. First, Providence Water filed its first 5 and 20 year IFR plan with the RI Department of Health (DOH) on February 29, 1996. We then filed our updated 5 and 20 year IFR plan with the DOH on March 30, 2001, as the law requires. The DOH requires six copies and under R.I.G.L. §46-15.3-6(d) one copy is sent by DOH to the Public Utilities Commission for review and comment.

Second, as stated above, Providence Water is not requesting a change to the annual IFR funding level of \$12.5 million. Providence Water filed multi-year IFR project schedules in the prior rate filing that were approved by the Commission.

**Property Taxes**

Q. Have you reviewed Mr. Woodcock's testimony regarding property taxes?

A. Yes I have. We feel that we did a good job of projecting FY 2003 property taxes. In fact, we were within 1% of the final bill amounts for the tax bills received to

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date. We do feel that some amount of projections based on firm historical data are necessary in order to set pro-forma rates that will supply sufficient revenue to meet expenses. Providence Water feels that an increase in taxes is inevitable and an appropriate increase is therefore necessary. While we are concerned about future revaluations and the potential impact they could have on our tax expense, in order to reach consensus we have agreed to Mr. Catlin's proposed percentage increase for the second half of the rate year.

**City Service expense**

- Q. Have you reviewed Mr. Woodcock's testimony regarding City Service expense?
- A. Yes I have. As discussed in our response to Kent County Water Authority's data request 2-1, Providence Water inadvertently overlooked the city service study set forth in the settlement agreement. We apologize for this oversight. We did not ask for an increase to city service expense from the amount approved in Docket 3163, \$ 806,769.

As a result of the inquiry by Kent County, the City has prepared an updated city service expense analysis. It is attached as Exhibit 2 to my rebuttal testimony. Updating the analysis to FY 2001 amounts results in an expense level over \$900,000. However, Providence Water is not requesting a change to the amount approved in the previous docket.



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**Other adjustments**

Q. Have you reviewed Mr. Woodcock's testimony on other adjustments?

A. Yes I have. Providence Water is willing to adjust the net operating revenue to the final expense amounts approved in this docket. The 1.5% should be applied to the total expenses less miscellaneous revenues as it always has been.

Providence Water agrees with the Division's amortization of rate case expense over a two year period. Based on our response to Division data request 1-17a, where we have identified over \$197,000 in regulatory commission expense in fiscal year ending June 30, 2002, we feel that the amounts set forth on Schedule G of our original filing are good estimates.

Providence Water has agreed to a proposed adjustment for Computer Maintenance by the Division. This is the same issue identified by Mr. Woodcock on page 5, lines 41 through 44.

**Sales volumes and units of service**

Q. Have you reviewed Mr. Woodcock's testimony regarding sales volumes and units of service?

A. Yes I have. Providence Water has updated the wholesale sales volumes, as Mr. Woodcock has. We agree with his consumption amounts for retail and wholesale. We have updated our hydrant counts and service counts.

Q. Does this conclude your testimony?

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A. Yes.